

Are You Ready to be a CFO for a Sponsor-Backed Company?

By Heather Thomas Johnson, Vice President, Pearson Partners International

Human capital can be a key differentiator in how a private equity firm maximizes the value of their investment. Private equity firms that assess executive management early in the process have greater success in monetizing early in the lifespan of their investment. Delayed decisions around changing out key executives impacts culture and certainty around the direction of the company, especially since new investors are involved in the business. Many private equity firms have access to key executives during the diligence process and see warning signs that should not be ignored.

There is one key role that typically is upgraded within the first 60 days: the CFO. Founder-led companies lack sophisticated systems, processes, and strategic CFO's to partner with the CEO and the sponsor. The CFO is a conduit of information to the private equity firm, communicating results, identifying any capital structure issues, M&A opportunities, and speaking the parties' common language of finance. Many private equity firms prefer a strategic CFO with a unique skill set relevant to the investment thesis for the company. For example, if growth through acquisitions is a strategy, then a CFO who is experienced in acquiring and integrating companies will be invaluable. Sponsors prefer a strategic CFO who has a solid understanding of operations and can work across various functional and divisional aspects of the business with an understanding of systems and processes to help the company formulate a successful exit.

So how do you know if you're ready for the next CFO gig? The most important skill set is competencies. Background and technical skill are important – these can be game changers – but what distinguishes one CFO from the next is leadership competencies and how this aligns with the sponsor's investment thesis.

The leadership competencies which sponsors look for are performance driven. Results are the number one priority for a sponsor. Other characteristics that come in to play are a high sense of urgency, experience building high performing teams, success in rapidly changing environment, managed change management initiatives, and bringing new ideas to the business. In addition, a solid track record of delivering year-over-year improvements in financial results.

A successful CFO of a sponsor-backed company will collaborate with the executive leadership team and is seen as a thought leader in the company, driving a shared vision while shaping the finance strategy to meet the company's business objectives. If you think and operate like an owner with an entrepreneurial spirit, aren't afraid to roll up your sleeves, and have a clear, approachable communication style, there's a great chance you have what it takes to be a CFO for a sponsor-backed company.

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